

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CITY OF INKSTER	County WAYNE
Fiscal Year End JUNE 30, 2006	Opinion Date NOVEMBER 7, 2006	Date Audit Report Submitted to State DECEMBER 21, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

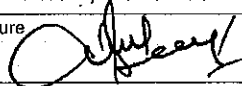
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) ALAN C. YOUNG & ASSOCIATES, PC		Telephone Number (313) 873-7500	
Street Address 2990 W. GRAND BLVD, STE. 310		City DETROIT	State MI
Zip 48202			
Authorizing CPA Signature 	Printed Name ANIL SAKHUJA		License Number 110102118

**CITY OF INKSTER, MICHIGAN**  
**FINANCIAL REPORT**  
**WITH SUPPLEMENTAL INFORMATION**  
**YEAR ENDED JUNE 30, 2006**

**CITY OF INKSTER, MICHIGAN**

**TABLE OF CONTENTS**

<b>Independent Auditors' Report .....</b>	<b>1</b>
<b>Management's Discussion and Analysis .....</b>	<b>3</b>
<b>Basic Financial Statements:</b>	
<b>Government-Wide Financial Statements:</b>	
Statement of Net Assets (Deficit) .....	10
Statement of Activities .....	11
<b>Fund Financial Statements:</b>	
<b>Governmental Funds:</b>	
Balance Sheet .....	13
Statement of Revenue, Expenditures, and Changes in Fund Balances .....	14
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	15
<b>Proprietary Funds:</b>	
Statement of Net Assets .....	16
Statement of Revenue, Expenses, and Changes in Net Assets .....	17
Statement of Cash Flows .....	18
<b>Fiduciary Funds:</b>	
Statement of Net Assets .....	19
Statement of Changes in Net Assets .....	20
<b>Component Units:</b>	
Statement of Net Assets (Deficit) .....	21
Statement of Activities .....	22
<b>Notes to Financial Statements .....</b>	<b>23</b>
<b>Required Supplemental Information</b>	
Budgetary Comparison Schedule – General Fund .....	47
Budgetary Comparison Schedule – Major Streets Fund .....	48
Budgetary Comparison Schedule – Local Streets Fund .....	49
<b>Pension Systems:</b>	
Schedules of Funding Progress .....	50
Schedules of Employer Contributions .....	51
<b>Notes to Required Supplemental Information .....</b>	<b>52</b>

**Other Supplemental Information**

**Non-Major Governmental Funds:**

Combining Balance Sheet.....	53
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances .....	54

**Fiduciary Funds:**

Combining Statement of Net Assets.....	55
Combining Statement of Changes in Net Assets.....	56

**Alan C.  
Young & Associates, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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**INDEPENDENT AUDITORS' REPORT**

To the City Council  
City of Inkster, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the remaining fund information of the City of Inkster, Michigan as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the of City of Inkster, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Inkster, Michigan as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budgetary comparison schedules, and pension system schedules of funding progress and employer contributions, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the City Council  
City of Inkster, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Inkster, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we will also be issuing a report on our consideration of the City of Inkster, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with government Auditing Standards and should be considered in assessing the results of our audit.

*Alan C. Young, Assoc.*

November 7, 2006

**CITY OF INKSTER, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2006**

This section of the City of Inkster, Michigan's annual financial report presents our discussion and analysis of the City of Inkster, Michigan's financial performance during the fiscal year ended June 30, 2006. Please read it in conjunction with the financial statements that follow this section.

**FINANCIAL HIGHLIGHTS**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2006:

**GENERAL FUND ENDS YEAR WITH AN INCREASE TO FUND BALANCE:** As discussed further in the fund financial statement analysis section of this report, the General Fund finished the year end June 30, 2006 with an increase in fund balance of \$510,700. This left the General Fund with a fund balance at June 30, 2006 of \$1,089,558.

**INCREASE IN PROPERTY TAX VALUES:** Property taxes are the City's largest source of revenue to the General Fund. The City's taxable value for 2006 increased 5.06% from 2005 taxable value (Real and Personal Property) of \$323,614,389 to a 2006 taxable value of \$340,410,788.

**DECREASE IN STATE-SHARED REVENUES:** State shared revenue; the second largest revenue source of the General Fund was again reduced by the State of Michigan from \$4,519,584 in fiscal year 2005 to \$4,455,173 in fiscal year 2006 in which totaled a decrease in the amount of \$64,411.

**CARVER HOMES/ANNAPOLIS POINTE PROJECT:** The Carver Homes/Annapolis Pointe Subdivision redevelopment Phase I continued throughout fiscal year 2006. Phase I includes one hundred eight (108) housing units. The majority of acquisition and relocation activities in both Phase I and II are complete. During the first half of the year, the infrastructure and seventeen (17) housing units were constructed in Phase I along Annapolis Avenue. Beginning in June 2006, demolition of all city-owned properties began. In late summer of 2006, Crosswinds, Inc. began the construction of the additional ninety-one (91) units. In October 2006, the City of Inkster sold \$4,155,000 of Brownfield Redevelopment Bonds that will be paid for with future Brownfield Development tax captures. The bonds are used to pay for costs related to infrastructure and related activities in Phase I.

**NEW CITY FUND:** On May 2, 2006 the citizens of Inkster voted and approved a millage for parks, recreation, senior services and youth services. The City of Inkster established a special revenue fund to account for the activities of these services and remove them from the General Fund. The millage, which in any one year shall not exceed two mills, is for the ten year period of 2006 to 2016.

**CITY OF INKSTER, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2006  
(Continued)**

**CSO PHASE II POSTPONED:** During the 2004 fiscal year, the City was successful in its appeal to the Michigan Department of Environmental Quality for an extension on the time in which Phase II of the CSO elimination program will be completed. The City was granted an extension until 2007 to begin construction of the Phase II project and until 2013 for completion. In August 2003, Inkster voters overwhelmingly approved an additional tax levy to fund the Phase II project. Shortly after the election, the City was notified that our extension request had been approved and thus the issuance of bonds will not be necessary until 2007.

**NEW MUNICIPAL BUILDING 26215 TROWBRIDGE PURCHASE:** The Tax Increment Financing Authority and the City of Inkster has a partnership underway to renovate a building at 26215 Trowbridge as a City Hall Municipal Complex. The building has double the usable space as a municipal facility. The acquisition and renovation of the building is being funded by the Tax Increment Finance Authority. The city and TIFA broke ground for renovation in October 2006. The building should be substantially complete by early spring 2007. The building will house City hall departments, City Council chambers, offices and a community room that will be available for the TIFA and community groups.

**Using this Annual Financial Report**

This annual financial report consists of a management's discussion and analysis (this section), the basic financial statements, and other required supplementary information. In the basic financial statements section are two sets of financial statements along with the notes to the financial statements. A discussion on each set of financial statements follows.

**The Government-Wide Financial Statements**

The first set of financial statements is the government wide financial statements that include the statement of net assets and statement of activities on pages 10-12. These statements provide both long and short-term information about the City's overall financial status and are prepared on the full accrual basis of accounting.

The following tables present, in a condensed format, the government wide net assets (See Table 1) and changes in net assets (See Table 2) of the City as of June 30, 2006 and are compared to the prior fiscal year.



**CITY OF INKSTER, MICHIGAN**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2006**  
**(Continued)**

**The Government-Wide Financial Statements**

The following table shows, in a condensed format, the government-wide net assets of the City as of June 30, 2006 and is compared to the prior year:

**TABLE 1**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<b>Assets:</b>						
Current Assets	\$7,762,214	\$8,100,954	\$3,650,248	\$4,680,190	\$11,412,462	\$12,781,144
Restricted Assets	4,914,818	655,325	1,339,524	1,087,434	6,254,342	1,742,759
Capital Assets	18,018,254	17,229,418	28,874,190	28,926,019	46,892,444	46,155,437
<b>Total Assets</b>	<b>30,695,286</b>	<b>25,985,697</b>	<b>33,863,962</b>	<b>34,693,643</b>	<b>64,559,248</b>	<b>60,679,340</b>
<b>Liabilities:</b>						
Current Liabilities	5,399,292	4,835,070	1,785,338	1,858,071	7,184,630	6,693,141
Long-term Liabilities	14,561,955	12,536,638	8,162,906	9,062,801	22,724,861	21,599,439
<b>Total Liabilities</b>	<b>19,961,247</b>	<b>17,371,708</b>	<b>9,948,244</b>	<b>10,920,872</b>	<b>29,909,491</b>	<b>28,292,580</b>
<b>Net Assets:</b>						
Invested in Capital Assets--						
Net of Related Debt	4,615,378	9,420,191	21,106,100	20,028,957	25,721,478	29,449,148
Restricted	8,007,495	3,398,844	118,118	118,118	8,125,613	3,516,962
Unrestricted (Deficit)	(1,888,834)	(4,205,046)	2,691,500	3,625,698	802,666	(579,350)
<b>Total Net Assets</b>	<b>\$10,734,039</b>	<b>\$8,613,989</b>	<b>\$23,915,718</b>	<b>\$23,772,771</b>	<b>\$34,649,757</b>	<b>\$32,386,760</b>

As shown in this table, the City of Inkster, Michigan's total net assets increased slightly from a year ago. Net assets increased \$32,386,760 to \$34,649,757.

**TABLE 2**

The following table shows the changes of the net assets during the years ended June 30, 2006 and June 30, 2005:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<b>Revenue:</b>						
Program Revenue:						
Charges for Services	\$3,433,186	\$2,970,834	\$6,766,707	\$6,190,662	\$10,199,893	\$9,161,498
Operating Grants	3,959,264	3,809,056	0	0	3,959,264	3,809,056
General Revenue:						
Property Taxes	7,286,265	7,318,627	1,146,910	1,030,347	8,433,175	8,348,974
State-shared Revenue	4,455,173	4,530,553	0	0	4,455,173	4,530,553
Investment Earnings	282,839	138,108	38,891	8,493	301,730	144,601
Franchise Fees	247,671	225,135	0	0	247,671	225,135
Miscellaneous	412,371	349,779	0	0	412,371	349,779
Healthcare Reimbursement	350,579	0	0	0	350,579	0
<b>Total Revenue</b>	<b>\$20,407,348</b>	<b>\$19,340,092</b>	<b>\$7,952,508</b>	<b>\$7,229,502</b>	<b>\$28,359,856</b>	<b>\$26,569,594</b>
<b>Program Expenses:</b>						
General	2,482,817	2,977,544	0	0	2,482,817	2,977,544
Public Safety	8,080,128	9,615,235	0	0	8,080,128	9,615,235
Public Works	6,590,402	5,497,903	0	0	6,590,402	5,497,903
Recreation	911,269	1,058,335	0	0	911,269	1,058,335
Interest on Long-term Debt	222,682	297,011	0	0	222,682	297,011
Water and Sewer	0	0	7,809,561	8,590,836	7,809,561	8,590,836
<b>Total Program Expenses</b>	<b>18,287,298</b>	<b>19,446,028</b>	<b>7,809,561</b>	<b>8,590,836</b>	<b>26,096,859</b>	<b>28,036,884</b>
<b>Change in Net Assets</b>	<b>\$2,120,050</b>	<b>(\$105,936)</b>	<b>\$142,947</b>	<b>(\$1,361,334)</b>	<b>\$2,262,997</b>	<b>(\$1,467,270)</b>

**CITY OF INKSTER, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2006  
(Continued)**

**The Government-Wide Financial Statements – (Continued)**

Government activities include the City's General Fund and Major and Local Streets Funds and other governmental funds. These funds account for all general governmental activities.

The City's total governmental revenues increased \$1,067,256 from \$19,340,092 in FY 06 to \$20,407,348 in FY06. This amount represents a 5.5% increase and is due primarily to increases in charges for services in FY06.

Business type activities are comprised of the Utility Fund. This fund accounts for the water and sewage disposal services provided to the City of Inkster residents. The City of Inkster purchases water from the City of Detroit Water System and the Wayne County Rouge Valley Sewage Disposal System provides sewage treatment.

Charges to the City by Detroit for water and Wayne County for sewage treatment and disposal along with the City's operational and maintenance costs are reviewed annually to set the water and sewer rates for the fiscal year. As a result, the water and sewer fund rates were changed to reflect an increase of water rate from \$1.54 to \$1.68 per unit and the sewer rate from \$3.37 to \$3.65 per unit. The Utility Fund had an increase in net assets of \$147,947 for the year ended June 30, 2006.

**Fund Financial Statements**

The second sets of financial statements included in this report are the fund financial statements, which are found on pages 13-14. These statements present a short-term view and tell how city services were financed during the year as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The City's funds are created to manage money earmarked for specific purposes as well as to show accountability for certain activities. The Fiduciary Funds statements provide information about activities for which the City of Inkster, Michigan acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The major funds for fiscal year ending June 30, 2006 include the General Fund, Major Streets Fund and Local Streets Fund. The General Fund accounts for most of the City's general governmental services including public safety, public works, recreation, library, and general government. The Major and Local Streets Funds account for funds required by statute for use on maintenance of major and local streets within the City.

**CITY OF INKSTER, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2006  
(Continued)**

**General Fund Budgetary Highlights**

Before beginning the discussion on the General Fund budget, review the following table. This table shows the prior year actual results, the original budget the amended budget the current year actual results and the budget for next year.

	FY05 AUDITED ACTUAL	FY06 ORIGINAL BUDGET	FY06 AMENDED BUDGET	FY06 AUDITED ACTUAL
<b>Revenues:</b>				
Property Taxes	\$7,173,914	\$7,519,500	\$7,384,000	\$7,284,793
Licenses/Permits	239,780	272,300	281,600	419,507
Federal Grants	7,725	0	0	0
State Revenues/Grants	4,749,221	4,702,000	4,702,000	4,735,800
Charges for Services	1,702,619	1,829,400	1,853,630	1,946,279
Interest Earnings	57,145	80,000	80,000	175,843
Admin Charges/Other	1,965,812	1,965,500	2,817,978	2,836,713
<b>Total Revenues</b>	<b>\$15,896,216</b>	<b>\$16,368,700</b>	<b>\$17,119,208</b>	<b>\$17,398,935</b>
<b>Expenditures:</b>				
General Government	\$2,505,153	\$2,598,490	\$2,650,207	\$2,572,988
Public Safety	7,162,497	6,564,820	6,427,378	6,612,688
Public Works	2,720,440	3,031,225	2,884,957	2,805,592
Recreation/Library	793,750	763,426	654,401	668,385
Grant Expenditures	7,725	0	0	0
Non-Departmental	3,621,487	3,411,800	3,904,125	4,228,582
<b>Total Expenditures</b>	<b>\$16,811,052</b>	<b>\$16,369,761</b>	<b>\$16,521,068</b>	<b>\$16,888,235</b>
<b>INCREASE (DECREASE) IN FUND BALANCE</b>	<b>(\$914,836)</b>	<b>(\$1,061)</b>	<b>\$598,140</b>	<b>\$510,700</b>

As shown, during FY06 the actual General Fund revenues were \$17,398,935 and were \$510,700 over expenditures of \$16,888,235.

The original FY06 budget projected revenues at \$16,368,700 and expenditures at \$16,369,761. The original budget projected a use of fund balance of \$1,061.

The FY 06 budget was closely monitored throughout the year. Extensive reviews and budget amendments were performed after each quarter. During the quarterly budget reviews, it was determined that certain revenue line items would exceed the original projections. The budget was amended to increase the projected revenues by \$750,508, from \$16,368,700 to \$17,119,208. The increase in budgeted revenues was mainly for state grants, ambulance fees and court collections for tickets and fines.

**CITY OF INKSTER, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2006  
(Continued)**

**General Fund Budgetary Highlights – (Continued)**

Also during these reviews, it became apparent that certain expenditures would be more than originally projected. The budget for expenditures was increased by \$151,307 from \$16,369,761 to \$16,521,068. Actual expenses incurred exceeded amended budget amounts by \$367,167 per the budgetary comparison schedule on page 47. The majority of the actual expenditure increase over budget was incurred in the areas of group health insurance, general liability insurance settlements, refunding of special assessment charges on homes that were sold by Wayne County and contractual service expenditures out of the department of public works.

**Capital Asset and Debt Administration**

As shown in the statement of net assets (see page 10) and detailed in Note 5, at the end of fiscal year 2006 the City (excluding component units) had \$46,892,444 (net of depreciation) invested in capital assets. These assets include land and buildings, police and fire vehicles and equipment, the City fleet, sidewalks, playgrounds, water and sewer lines, CSO basin and the like. The debt related to the acquisition and construction of these assets at June 30, 2006 was \$21,454,680 with \$2,393,963 of this debt due to be paid within the next year. A detailed listing of all City debt can be found in Note 7.

During the year, the long-term debt of the City increased by \$3,005,632. This was due primarily to the issuance of \$5,000,000 unlimited tax general obligation local street bonds.

In November 2002, the residents of the City of Inkster, Michigan overwhelmingly voted for an additional tax levy for debt service on \$15,000,000 in bonds to be issued in three series over the next 10 years for financing street improvements. The first series of bonds in the amount of \$5,000,000 were issued in March 2003. An assessment of the condition of all local streets within the City was used to prioritize the streets to be resurfaced. The improvement program began in April 2003. There were no debt issues for local or major streets in FY 2004 or FY 2005. The second series of bonds in the amount of \$5,000,000 was issued in FY 2006. The local street improvements will continue over the next 10 years.

**Economic Factors and Next Years Budget**

The FY 07 budgeted revenues project a continued decrease in state shared revenues and a small increase in property taxes at the inflation rate.

The goal of the 2007 budget is to continue to keep expenditures in line with the City's limited resources without the use of fund balance. It is also the goal of the City to purchase a new municipal building for the municipality to house general fund operations and do this through the use of Tax Increment Finance Authority tax captures and a debt issue.

Due to the tight budget situation that the City faces, all operating budgets are being reviewed and adjusted on a bi-weekly basis in fiscal year 2007 to insure fiscal integrity of each operation.

**CITY OF INKSTER, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2006  
(Continued)**

**Contacting the City's Management**

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office.

**CITY OF INKSTER, MICHIGAN**  
**STATEMENT OF NET ASSETS (DEFICIT)**  
**JUNE 30, 2006**

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
<b>Assets:</b>				
Cash and Investments (Note 3)	\$3,060,766	\$6,087	\$3,066,853	\$1,831,013
Receivables - Net:				
Customers	0	3,363,466	3,363,466	0
Taxes Receivables	106,535	0	106,535	0
Long-Term Receivable from TIFA (Note 4)	1,197,047	0	1,197,047	0
Other	459,811	0	459,811	23,461
Internal Balances (Note 6)	154,623	(154,623)	0	0
Due from Component Units	103,366	0	103,366	0
Due from Other Governmental Units	2,651,174	0	2,651,174	0
Inventories	11,005	188,993	199,998	0
Deferred Bond Issuance Costs	0	246,325	246,325	0
Restricted Assets (Note 8)	4,914,818	1,339,524	6,254,342	0
Capital Assets - Net (Note 5)	18,018,254	28,874,190	46,892,444	0
Prepaid Pension	17,887	0	17,887	0
<b>Total Assets</b>	<b>30,695,286</b>	<b>33,863,962</b>	<b>64,559,248</b>	<b>1,854,474</b>
<b>Liabilities:</b>				
Accounts Payable	2,235,855	609,039	2,844,894	241,661
Liabilities to be Paid from Restricted Assets:				
Due to Primary Government	0	0	0	103,366
Accrued and Other Liabilities	797,677	231,690	1,029,367	0
Deferred Revenue (Note 4)	34,406	0	34,406	0
Debt - Due within One Year (Note 7)	1,449,354	944,609	2,393,963	0
Other Noncurrent Liabilities - Due Within One Year	882,000	0	882,000	0
Noncurrent Liabilities:				
Joint Venture Deficit (Note 11)	157,807	0	157,807	0
Estimated Worker's Compensation and Other Claims	2,285,981	0	2,285,981	0
Accrued Employee Benefits	997,974	0	997,974	0
Estimated Property Tax Chargebacks	222,382	0	222,382	0
Debt - Due in More Than One Year (Note 7)	10,897,811	8,162,906	19,060,717	3,982,047
<b>Total Liabilities</b>	<b>19,961,247</b>	<b>9,948,244</b>	<b>29,909,491</b>	<b>4,327,074</b>
<b>Net Assets (Deficit):</b>				
Invested in Capital Assets - Net of Related Debt	4,615,378	21,106,100	25,721,478	0
Restricted:				
Local and Major Streets	7,883,639	0	7,883,639	0
Drug Forfeiture	2,103	0	2,103	0
Capital Projects	121,753	0	121,753	0
Environmental Protection Agency (Note 8)	0	118,118	118,118	0
Brownfield Authority Project	0	0	0	(265,836)
Unrestricted (Deficit)	(1,888,834)	2,691,500	802,666	(2,206,764)
<b>- Total Net Assets (Deficit)</b>	<b>\$10,734,039</b>	<b>\$23,915,718</b>	<b>\$34,649,757</b>	<b>(\$2,472,600)</b>

*The notes to financial statements are an integral part of this statement.*

**CITY OF INKSTER, MICHIGAN**  
**STATEMENT OF ACTIVITIES**  
**JUNE 30, 2006**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$2,482,817	\$3,251,456	\$89,131	\$0
Public Safety	8,080,128	140,426	976,860	0
Public Works	6,590,402	0	2,893,273	0
Recreation and Culture	911,269	41,304	0	0
Interest on Long-Term Debt	222,682	0	0	0
<b>Total Government Activities</b>	<b>18,287,298</b>	<b>3,433,186</b>	<b>3,959,264</b>	<b>0</b>
Business - Type Activities - Water and Sewer	7,809,561	6,766,707	0	0
<b>Total Primary Government</b>	<b>\$26,096,859</b>	<b>\$10,199,893</b>	<b>\$3,959,264</b>	<b>\$0</b>
Component Units:				
Beech Daly Tax Increment Finance Authority	\$804,959	\$0	\$6,680	\$0
Brownfield Authority	14,446	0	0	0
Downtown Development Authority	35,411	0	0	0
<b>Total Component Units</b>	<b>\$854,816</b>	<b>\$0</b>	<b>\$6,680</b>	<b>\$0</b>

*The notes to financial statements are an integral part of this statement.*

**CITY OF INKSTER, MICHIGAN**  
**STATEMENT OF ACTIVITIES**  
**JUNE 30, 2006**  
**(Continued)**

Functions/Programs	Net (Expense) Revenue and Charges in Net Assets			
	Primary Government		Total	Component Units
	Governmental Activities	Business-Type Activities		
Primary Government:				
Governmental Activities:				
General Government	\$857,770	\$0	\$857,770	\$0
Public Safety	(6,962,842)	0	(6,962,842)	0
Public Works	(3,697,129)	0	(3,697,129)	0
Recreation and Culture	(869,965)	0	(869,965)	0
Interest on Long-Term Debt	(222,682)	0	(222,682)	0
<b>Total Government Activities</b>	<b>(10,894,848)</b>	<b>0</b>	<b>(10,894,848)</b>	<b>0</b>
Business - Type Activities - Water and Sewer	0	(1,042,854)	(1,042,854)	0
<b>Total Primary Government</b>	<b>(\$10,894,848)</b>	<b>(\$1,042,854)</b>	<b>(\$11,937,702)</b>	<b>\$0</b>
Component Units:				
Beech Daly Tax Increment Finance Authority	0	0	0	(798,279)
Brownfield Authority	0	0	0	(14,446)
Downtown Development Authority	0	0	0	(35,411)
<b>Total Component Units</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$848,136)</b>
General Revenues:				
Property Taxes	7,286,265	1,146,910	8,433,175	875,264
State-Shared Revenues	4,455,173	0	4,455,173	0
Unrestricted Investment Earnings	262,839	38,891	301,730	32,568
Franchise Fees	247,671	0	247,671	0
Miscellaneous	412,371	0	412,371	0
Healthcare Reimbursements	350,579	0	350,579	0
<b>Total General Revenues</b>	<b>13,014,898</b>	<b>1,185,801</b>	<b>14,200,699</b>	<b>907,832</b>
<b>Change in Net Assets</b>	<b>2,120,050</b>	<b>142,947</b>	<b>2,262,997</b>	<b>59,696</b>
<b>Net Assets (Deficit) - July 1, 2005</b>	<b>8,613,989</b>	<b>23,772,771</b>	<b>32,386,760</b>	<b>(2,532,296)</b>
<b>Net Assets (Deficit) - June 30, 2006</b>	<b>\$10,734,039</b>	<b>\$23,915,718</b>	<b>\$34,649,757</b>	<b>(\$2,472,600)</b>

*The notes to financial statements are an integral part of this statement.*



**CITY OF INKSTER, MICHIGAN  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2006**

	General Fund	Major Streets Fund	Local Streets Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash And Investments	128,403	\$1,801,476	\$542,251	\$216,058	\$2,688,188
Receivables - Net:					
Taxes Receivable	106,535	0	0	0	106,535
Long-Term Receivable From TIFA	0	1,197,047	0	0	1,197,047
Other	297,282	20,000	0	142,529	459,811
Restricted Assets (Note 8)	0	0	4,914,818	0	4,914,818
Due From Other Funds	340,783	0	0	15,169	355,942
Due From Component Unit	103,366	0	0	0	103,366
Due From Other Governments	2,380,557	189,821	80,796	0	2,651,174
Inventories	817	0	0	0	817
<b>Total Assets</b>	<b>\$3,357,743</b>	<b>\$3,208,344</b>	<b>\$5,537,865</b>	<b>\$373,746</b>	<b>\$12,477,698</b>
<b>Liabilities And Fund Balances</b>					
<b>Liabilities</b>					
Accounts Payable	\$1,480,953	\$166,655	\$534,579	\$14,165	\$2,196,352
Accrued And Other Liabilities	523,411	0	0	0	523,411
Due To Other Funds	263,821	0	0	201,319	465,140
Due to Component Units	0	0	0	0	0
Deferred Revenue	0	1,217,047	0	34,406	1,251,453
<b>Total Liabilities</b>	<b>2,268,185</b>	<b>1,383,702</b>	<b>534,579</b>	<b>249,890</b>	<b>4,436,356</b>
<b>Fund Balances</b>					
Reserved:					
Unspent Bond Proceeds in the					
Local Streets Fund	0	0	4,914,818	0	4,914,818
Inventories	817	0	0	0	817
Unreserved, reported in General Fund --					
Designated For Property Tax Chargebacks	334,382	0	0	0	334,382
Unreserved, Undesignated, Reported In:					
General Fund	754,359	0	0	0	754,359
Special Revenue Funds	0	1,824,642	88,468	2,103	1,915,213
Capital Projects Funds	0	0	0	121,753	121,753
<b>Total Fund Balances</b>	<b>1,089,558</b>	<b>1,824,642</b>	<b>5,003,286</b>	<b>123,856</b>	<b>8,041,342</b>
<b>Total Liabilities And Fund Balances</b>	<b>\$3,357,743</b>	<b>\$3,208,344</b>	<b>\$5,537,865</b>	<b>\$373,746</b>	

Amounts reported for Governmental Activities in the Statement of Net Assets are different because:

Capital Assets used in Governmental Activities are not financial resources and are not reported in the funds.	16,853,113
Accounts Receivable from the Tax Increment Finance Authority will be collected over several years and are not available to pay for current year expenditures.	1,217,047
General employee pension plan liability not paid in the current period and not reported in the funds.	17,887
Long-Term Liabilities are not due and payable in the current period and are not reported in the funds.	(16,396,144)
Internal Service Funds are included as part of governmental activities.	1,000,794
<b>Net Assets of Governmental Activities</b>	<b>\$10,734,039</b>

*The notes to financial statements are an integral part of this statement.*

**CITY OF INKSTER, MICHIGAN  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUE, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2006**

	General Fund	Major Streets Fund	Local Streets Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>Revenue</b>					
Property Taxes	\$7,284,793	\$0	\$712,975	\$1,472	\$7,999,240
Licenses and Permits	419,507	0	0	0	419,507
Federal Grants	0	0	0	984,049	984,049
State Revenues and Grants	4,735,800	1,149,592	489,317	22,499	6,397,208
Charges for Services	1,946,279	0	0	0	1,946,279
Interest	175,843	62,102	18,471	6,423	262,839
Administrative Charges and Other Revenue	2,771,713	197,489	0	122,716	3,091,918
<b>Total Revenue</b>	<b>17,333,935</b>	<b>1,409,183</b>	<b>1,220,763</b>	<b>1,137,159</b>	<b>21,101,040</b>
<b>Expenditures</b>					
Current:					
General Government	2,572,988	0	0	0	2,572,988
Public Safety	6,612,688	0	0	186,102	6,798,790
Highways, Streets, and Public Works	2,805,592	1,507,466	2,282,945	0	6,596,003
Grant Expenditures	0	0	0	1,006,547	1,006,547
Recreation and Culture	668,385	0	0	0	668,385
Non-Departmental	4,228,582	0	0	17,680	4,246,262
Debt Service	0	283,384	585,366	0	868,750
<b>Total Expenditures</b>	<b>16,868,235</b>	<b>1,790,850</b>	<b>2,868,311</b>	<b>1,210,329</b>	<b>22,757,725</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>445,700</b>	<b>(381,667)</b>	<b>(1,647,548)</b>	<b>(73,170)</b>	<b>(1,656,685)</b>
<b>Other Financing Sources (Uses)</b>					
Operating Transfers In	65,000	0	275,000	15,159	355,159
Operating Transfers Out	0	(275,000)	0	(15,159)	(290,159)
Proceeds from Bond Issuance	0	0	5,000,000	0	5,000,000
<b>Total Other Financing Sources (Uses)</b>	<b>65,000</b>	<b>(275,000)</b>	<b>5,275,000</b>	<b>0</b>	<b>5,065,000</b>
<b>Net Change in Fund Balances</b>	<b>510,700</b>	<b>(656,667)</b>	<b>3,627,452</b>	<b>(73,170)</b>	<b>3,408,315</b>
<b>Fund Balances - July 1, 2005</b>	<b>578,858</b>	<b>2,481,309</b>	<b>1,375,834</b>	<b>197,026</b>	<b>4,633,027</b>
<b>Fund Balances - June 30, 2006</b>	<b>\$1,089,558</b>	<b>\$1,824,642</b>	<b>\$5,003,286</b>	<b>\$123,856</b>	<b>\$8,041,342</b>

*The notes to financial statements are an integral part of this statement.*

**CITY OF INKSTER, MICHIGAN  
GOVERNMENTAL FUNDS  
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006**

**Net Change In Fund Balances - Total Governmental Funds**

Amounts Reported For Governmental Activities In The Statement Of Activities Are Different Because:	\$3,408,315
Governmental Funds Report Capital Outlays As Expenditures; In The Statement Of Activities, These Costs Are Allocated Over Their Estimated Useful Lives As Depreciation:	
Capital Outlay	2,141,457
Depreciation Expense	(1,076,892)
Bond Proceeds Reported as Long-Term Debt Rather than Other Financing Sources	(5,000,000)
Repayment Of Bond Principal Is An Expenditure In The Governmental Funds, But Not In The Statement Of Activities (Where It Reduces Long-Term Debt)	840,000
Decrease In Estimated Long-Term General Liability Claims	505,000
Decrease In Long-Term Accrued Employee Sick And Vacation Pay	185,133
Decrease In Property Tax Chargeback Accrual	398,606
Reimbursement From The TIFA For Debt Principal Payments	(108,750)
Decrease In Unfunded General Employee Pension Obligation	189,980
Internal Service Funds Are Also Included As Governmental Activities	(102,952)
Decrease In Accrued Liability for Police/Fire Pension	107,575
Decrease In Joint Venture Liability	612,578
Funds Received more than 60 Days after Year-End Recorded as Deferred Revenue in Governmental Funds, Revenue in Governmental Activities	<u>20,000</u>
<b>Change In Net Assets Of Governmental Activities</b>	<u><u>\$2,120,050</u></u>

*The notes to financial statements are an integral part of this statement.*

**CITY OF INKSTER, MICHIGAN  
PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS  
JUNE 30, 2006**

	Enterprise - Water and Sewer Fund	Internal Service Funds
<b>Assets</b>		
Current Assets:		
Cash and Cash Equivalents	\$6,087	\$372,578
Receivables - Net	3,363,466	0
Inventories	188,993	10,188
Deferred Bond Issuance Costs	246,325	0
Total Current Assets	3,804,871	382,766
Non-current Assets:		
Restricted Assets	1,339,524	0
Capital Assets	28,874,190	1,165,141
Total Non-current Assets	30,213,714	1,165,141
Total Assets	34,018,585	1,547,907
<b>Liabilities</b>		
Current Liabilities:		
Accounts Payable	609,039	39,502
Accrued and Other Liabilities	207,450	10,446
Bonds and Deposits	24,240	0
Due to Other Funds	154,623	0
Current Portion of Long-Term Debt	944,609	159,354
Total Current Liabilities	1,939,961	209,302
Non-Current Liabilities - Long-Term Debt - Net of Current Portion	8,162,906	337,811
Total Liabilities	10,102,867	547,113
<b>Net Assets</b>		
Investment in Capital Assets - Net of Related Debt	21,106,199	667,976
Restricted	118,118	0
Unrestricted	2,691,401	332,818
Total Net Assets	\$23,915,718	\$1,000,794

*The notes to financial statements are an integral part of this statement.*

**CITY OF INKSTER, MICHIGAN  
PROPRIETARY FUNDS  
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS  
YEAR ENDED JUNE 30, 2006**

	Enterprise - Water and Sewer Fund	Internal Service Funds - Garage Fund
<b>Operating Revenue</b>		
Water and Sewer User Charges	\$5,896,850	\$0
Other Charges for Services	869,857	1,256,791
<b>Total Operating Revenue</b>	6,766,707	1,256,791
<b>Operating Expenses</b>		
Cost of Water	1,123,239	0
Cost of Sewage Disposal	2,089,450	0
Wages and Fringes	537,528	230,130
Operating Supplies	35,290	290,008
Equipment Rental	512,248	0
Contractual Services	1,041,844	171,734
Repairs and Maintenance	421,296	196,960
Insurance, Claims, and Other	247,384	124,580
Depreciation	863,198	352,388
Bad Debts	107,625	0
Non-Departmental	271,545	0
<b>Total Operating Expenses</b>	7,250,647	1,365,800
<b>Operating Income (Loss)</b>	(483,940)	(109,009)
<b>Non-Operating Revenue (Expense)</b>		
Investment Income	38,891	13,553
Interest Expense	(482,255)	(19,155)
Property Taxes	1,146,910	0
<b>Total Non-Operating Revenue (Expense)</b>	703,546	(5,602)
<b>Income (Loss) Before Operating Transfers</b>	219,606	(114,611)
Operating Transfers In	0	76,659
Operating Transfers Out	(76,659)	(65,000)
<b>Total Operating Transfers</b>	(76,659)	11,659
<b>Change in Net Assets</b>	142,947	(102,952)
<b>Net Assets - July 1, 2005</b>	23,772,771	1,103,746
<b>Net Assets - June 30, 2006</b>	\$23,915,718	\$1,000,794

*The notes to financial statements are an integral part of this statement.*

**CITY OF INKSTER, MICHIGAN  
PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2006**

	Enterprise - Water and Sewer Fund	Internal Service Funds - Garage Fund
<b>Cash Flows from Operating Activities</b>		
Receipts from Customers	\$6,233,328	\$5,714
Payments to Suppliers	(6,013,905)	(787,942)
Payments to Employees	(537,528)	(230,130)
Internal Activity - Payments from (to) Other Funds	0	1,256,322
<b>Net Cash Provided by Operating Activities</b>	<b>(318,105)</b>	<b>243,964</b>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Proceeds from Property Tax Levy Restricted for Debt Service	1,146,910	0
Purchase of Capital Assets	(811,369)	(76,659)
Principal and Interest Paid on Capital Debt	(1,359,236)	(296,619)
Operating Transfers	(76,659)	11,659
<b>Net Cash Used in Capital and Related Financing Activities</b>	<b>(1,100,354)</b>	<b>(361,619)</b>
<b>Cash Flows from Investing Activities - Interest on Investments</b>	<b>10,976</b>	<b>13,553</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(1,407,483)</b>	<b>(104,102)</b>
<b>Cash and Cash Equivalents - July 1, 2005</b>	<b>1,413,570</b>	<b>476,680</b>
<b>Cash and Cash Equivalents - June 30, 2006</b>	<b>\$6,087</b>	<b>\$372,578</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities</b>		
Operating Income (Loss)	(483,940)	(109,009)
Adjustments to Reconcile Operating Income (Loss) to Net Cash from Operating Activities:		
Depreciation and Amortization	863,198	352,388
Changes in Assets and Liabilities:		
Receivables	(533,379)	5,714
Deferred Bond Issuance Costs	30,791	0
Accounts Payable and Accrued Liabilities	(95,647)	(4,660)
Restricted Assets	(224,175)	0
Due to Other Funds	125,047	(469)
<b>Net Cash Provided by Operating Activities</b>	<b>(\$318,105)</b>	<b>\$243,964</b>

**Non-Cash Investing, Capital, and Financing Activities** - During the year ended June 30, 2006, the following non-cash activities occurred:

The Enterprise Fund is involved in the Rouge River National Wet Weather Demonstration Project. This activity was administered by Wayne County and is recorded in the restricted assets held at Wayne County as described in Note 8. Interest of \$27,915 was earned on monies held at the County.

The Enterprise Fund received \$116 in interest earnings as described in Note 8 on the monies held at the County for the North Huron Valley/Rouge Valley Sewer System improvements.

*The notes to financial statements are an integral part of this statement.*

**CITY OF INKSTER, MICHIGAN  
FIDUCIARY FUNDS  
STATEMENT OF NET ASSETS  
JUNE 30, 2006**

	Pension and Other Employee Benefit Trust Funds	Agency Fund - Escrow Fund
<b>Assets</b>		
Cash and Cash Equivalents	\$2,279	\$1,284,230
Investments:		
Corporate Bonds	1,783,309	0
U.S. Government Securities	394,637	0
U.S. Government Agency Securities	7,161,086	0
Common and Preferred Stock	17,366,207	0
Pension Guarantee Contract Pooled Fund	7,574,223	0
Bank Investment Pools	871,537	0
Receivables - Accrued Interest and Other	84,397	0
Due from other Funds	0	263,821
	<u>\$35,237,675</u>	<u>\$1,548,051</u>
<b>Total Assets</b>		
<b>Liabilities</b>		
Bonds and Deposits	0	\$1,515,514
Due to Other Governmental Units	0	32,537
	<u>0</u>	<u>\$1,548,051</u>
<b>Total Liabilities</b>		
<b>Net Assets - Held in Trust for Employee Pension Benefits</b>	<u><u>\$35,237,675</u></u>	

*The notes to financial statements are an integral part of this statement.*

**CITY OF INKSTER, MICHIGAN  
FIDUCIARY FUNDS  
STATEMENT OF CHANGES IN NET ASSETS  
YEAR ENDED JUNE 30, 2006**

	<u>Pension and Other Employee Benefit Trust Funds</u>
<b>Additions</b>	
Investment Income:	
Interest and Dividends	\$1,079,790
Net Increase in Fair Value of Investments	<u>1,543,634</u>
Net Investment Income	2,623,424
Contributions:	
Employer	640,491
Employee	<u>390,352</u>
Total Contributions	<u>1,030,843</u>
Total Additions	3,654,267
<b>Deductions</b>	
Benefit Payments	2,116,871
Refunds of Contributions	54,180
Administrative Expenses	<u>262,408</u>
Total Deductions	<u>2,433,459</u>
<b>Net Increase</b>	1,220,808
<b>Net Assets - Held in Trust for Pension and Other Employee Benefits</b>	
July 1, 2005	<u>34,016,867</u>
June 30, 2006	<u><u>\$35,237,675</u></u>

*The notes to financial statements are an integral part of this statement.*



**CITY OF INKSTER, MICHIGAN  
COMPONENT UNITS  
STATEMENT OF NET ASSETS (DEFICIT)  
JUNE 30, 2006**

	Economic Development Corporation	Beech Daly Tax Increment Finance Authority	Brownfield Redevelopment Authority	Downtown Development Authority	Total
<b>Assets</b>					
Cash and Investments	\$1,288	\$1,365,605	\$225	\$463,895	\$1,831,013
Due from Primary Government	0	0	97,926	0	97,926
Accounts Receivable	0	7,335	16,126	0	23,461
<b>Total Assets</b>	<b>1,288</b>	<b>1,372,940</b>	<b>114,277</b>	<b>463,895</b>	<b>1,952,400</b>
<b>Liabilities</b>					
Accounts Payable	0	51,299	178,821	11,541	241,661
Due to Primary Government	0	0	201,292	0	201,292
Liabilities to be Paid from Restricted Assets:					
Long-Term Debt	0	3,982,047	0	0	3,982,047
<b>Total Liabilities</b>	<b>0</b>	<b>4,033,346</b>	<b>380,113</b>	<b>11,541</b>	<b>4,425,000</b>
<b>Net Assets (Deficit)</b>					
Restricted for Brownfield Project	0	0	(265,836)	0	(265,836)
Unrestricted (Deficit)	1,288	(2,660,406)	0	452,354	(2,206,764)
<b>Total Net Assets (Deficit)</b>	<b>\$1,288</b>	<b>(\$2,660,406)</b>	<b>(\$265,836)</b>	<b>\$452,354</b>	<b>(\$2,472,600)</b>

*The notes to financial statements are an integral part of this statement.*

**CITY OF INKSTER, MICHIGAN  
COMPONENT UNITS  
STATEMENTS OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006**

	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets				
	Charges for Services	Operating Contributions	Capital Grants and Contributions	Economic Development Corporation	Beech Daly Tax Increment Finance Authority	Brownfield Redevelopment Authority	Downtown Development Authority	Total
Economic Development Corporation	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Beech Daly Tax Increment Finance Authority	804,959	0	6,680	0	(798,279)	0	0	(798,279)
Brownfield Tax Increment Finance Authority	14,446	0	0	0	0	(14,446)	0	(14,446)
Downtown Development Authority	35,411	0	0	0	0	0	(35,411)	(35,411)
Total Governmental Activities	\$854,816	\$0	\$6,680	\$0	(\$798,279)	(\$14,446)	(\$35,411)	(\$848,136)
General Revenues:								
Property Taxes				0	682,317	0	192,947	875,264
Interest				41	16,966	0	15,561	32,568
Total General Revenues				41	699,283	0	208,508	907,832
Change in Net Assets (Deficit)				41	(98,996)	(14,446)	173,097	59,696
Net Assets (Deficit) - July 1, 2005				1,247	(2,561,410)	(251,390)	279,257	(2,532,296)
Net Assets (Deficit) - June 30, 2006				\$1,288	(\$2,660,406)	(\$265,836)	\$452,354	(\$2,472,600)

**CITY OF INKSTER, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006**

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the City of Inkster, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City.

Reporting Entity

The City is governed by an elected mayor and six-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

The Inkster Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's buildings.

The following component units are reported within the component units column in the combined financial statements. They are reported in a separate column to emphasize that they are legally separate from the City.

- a. The Economic Development Corporation was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The Economic Development Corporation's governing body, which consists of 11 individuals, is selected by the City Council.
- b. The Beech Daly Tax Increment Finance Authority (TIFA) was created to correct and prevent deterioration in the TIFA district, encourage historical preservation, and to promote economic growth within the district. The TIFA's governing body, which consists of 13 individuals, is selected by the City Council.
- c. The Downtown Development Authority (DDA) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Downtown Development Authority's governing body, which consists of nine individuals, is selected by the City Council.

**CITY OF INKSTER, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006  
(Continued)**

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- d. The Brownfield Redevelopment Authority was created to revert tax-reverted and condemned properties as well as other properties into new residential housing. The Brownfield Redevelopment Authority's governing body, which consists of not less than five individual, is selected by the City Council.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets (deficit) and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed for these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual Enterprise Fund are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**CITY OF INKSTER, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006  
(Continued)**

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. Major revenue types for which receivables are recorded on the current accounting period's balance sheet include property taxes and state-shared revenue. All other revenue items are considered to be available only when cash is received by the City.

The City reports the following major governmental funds:

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Major Streets Fund is a Special Revenue Fund that accounts for revenue received from gasoline tax through the State of Michigan under ACT 51. Expenditures of this fund include the maintenance of major streets, as well as improvement of roadways and related financing expenditures.
- The Local Streets Fund is a Special Revenue Fund that accounts for revenue received from gasoline tax through the State of Michigan under ACT 51. Expenditures of this fund include the maintenance of local streets, as well as improvement of roadways and related financing expenditures.

The City reports the following major proprietary fund:

- The Water and Sewer Fund is the City's only proprietary fund. It accounts for the activities of the water distribution system and sewage collection system.

Additionally, the City reports the following fund types:

- The Internal Service Fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. The City's only Internal Service Fund is the Garage Fund, which is used to account for the City's vehicles and other machinery.

**CITY OF INKSTER, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006  
(Continued)**

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- Special Revenue Funds account for the revenues and expenditures related to drug enforcement and traffic immobilization activities and Community Development Block Grant and other miscellaneous grant activity.
- The Debt Service Fund accounts for payments of principal, interest and other related expenses in connection with building authority long-term debt. Resources of this fund are provided by a specific property tax levy.
- Capital Projects Funds accounts for the development and improvement of capital facilities and sidewalks, other than those financed by the operations of the proprietary fund.
- Pension Trust Funds account for the activities of the police and fire employees' retirement system and general government employees' retirement system, which accumulate resources for pension benefit payments to qualified employees.
- The Agency Fund is used to account for assets held by the City as an agent for individuals, organizations, other governments, or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

The effect of interfund activity has been eliminated from the government-wide financial statements. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

The proprietary fund distinguishes operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with the proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary fund relates to charges to customers for sales and services.

**CITY OF INKSTER, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006  
(Continued)**

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for the proprietary fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

**Property Tax Revenue**

Property taxes are assessed on the taxable valuation of property as of the preceding December 31. The related property taxes are billed on July 1 and December 1 of the following year. Taxes are considered delinquent on March 1 and September 1 of the following year, at which time penalties and interest are assessed. The City's 2005 tax is levied and collectible on July 1 and December 1, 2005, and is recognized as revenue in the year ended June 30, 2006 when the proceeds of the levy are budgeted and available for the financing of operations.

The 2005 taxable valuation of the City totaled \$323,494,774 (a portion of which is abated and a portion of which is captured by the TIFA and DDA), on which taxes levied consisted of 17.8227 mills for operating purposes, 2.6733 mills for rubbish collection services, and 6.8248 mills for debt service. This resulted in approximately \$5.4 million for operating, approximately \$865,000 for rubbish collection services, and approximately \$2.2 million for debt service. These amounts are recognized in the General Fund, Enterprise Fund, Local Streets (Special Revenue) Fund, and Debt Service Fund financial statements as tax revenue.

**Assets, Liabilities, and Net Assets or Equity**

**Cash Equivalents** – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

**Investments** – Investments are recorded at fair value. Securities traded on a national exchange are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair value. See Note 3 for additional investment information.

**Receivables and Payables** – In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds."

**CITY OF INKSTER, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006  
(Continued)**

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Receivables and Payables (Continued)** – Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.” All trade and property tax receivables are shown net of allowance for uncollectible amounts.

**Allowance for Doubtful Accounts** – All water and sewer and property tax receivables are shown net of allowances for doubtful accounts. The allowance for uncollectible water billings in the Utility Fund is \$409,000 at June 30, 2006. The allowance for uncollectible taxes in the General Fund is approximately \$54,000 at June 30, 2006.

**Inventories** – Inventories are valued at cost, on a first-in first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

**Restricted Assets** – The revenue bonds of the Enterprise Fund require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets, as well as amounts on deposit at the County being held for the construction or debt service of the City's water and sewer system. The unspent bond proceeds in the Local Streets Fund are required to be set aside for local street construction. These amounts have been classified as restricted assets

**Capital Assets** – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.



**CITY OF INKSTER, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**  
**(Continued)**

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	15 to 30 years
Water and sewer systems	50 to 75 years
Buildings and building improvements	40 to 50 years
Vehicles	3 to 10 years
Office furnishings	7 to 10 years
Other tools and equipments	7 to 10 years

In conjunction with the Carver Homes project (see Note 5), the City and the Brownfield Redevelopment Authority have agreed to acquire, improve, and then sell to the developer certain property in the City. Consistent with the lower-of-cost or market valuation principle, the project expenditures incurred through June 30, 2006, which are reported by the Brownfield Redevelopment Authority, have been expensed since it anticipated that the future costs to acquire the property will exceed the future sales price to the developer.

**Compensated Absences (Vacation and Sick Leave)** – It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay is accrued when incurred in the government-wide proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end.

**Property Tax Chargeback** – The property tax chargebacks represent real property tax collected from the County Tax Revolving Fund that is estimated to be uncollectible when the related parcels are later sold in land sales. The balance at June 30, 2006 consists of those amounts estimated to be charged back to the City in the years after June 30, 2006.

**Long-term Obligations** – In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are generally deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable recorded bond premium or discount.

**CITY OF INKSTER, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**  
**(Continued)**

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Long-term Obligations (Continued)** – Recorded bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize recorded bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Generally, premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance cost are reported as debt service expenditures.

**Fund Equity** – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** – The preparation of financial statements in conformity with accounting principles generally accepted the United State of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

2) **STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Construction Code Fees** – The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Shortfall at July 1, 2005		\$(138,808)
Current year building permit revenue		372,480
Related expenses:		
Direct Cost	\$313,446	
Estimated indirect costs	<u>29,777</u>	
Total construction code expenses		<u>(343,223)</u>
Cumulative shortfall at June 30, 2006		<u>\$(109,551)</u>

**Fund Deficit** – The Beech Daly Tax Increment Finance Authority reported a negative balance of unrestricted net assets at June 30, 2006. However, the modified accrual unreserved fund balance of its General Fund is \$1,321,641. Therefore, this is not considered a fund deficit. The Brownfield Tax Increment Finance Authority reported a negative balance of unrestricted net assets at June 30, 2006. See Note 5 for further discussion of the Brownfield Carver Homes Project.

**CITY OF INKSTER, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006  
(Continued)**

**3) DEPOSITS AND INVESTMENTS**

Michigan Compiled Laws, Section 129.91 (Public Act of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The pension trust funds are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated two banks for the deposit of local unit funds. The investment policy adopted by the City in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs for the City's funds. The City's deposits and investment policy are in accordance with statutory authority.

**Custodial Credit Risk of Investments**

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposit may not be returned to it. The City does not have a policy for custodial credit risk. At year end, the City had \$11,103,848 of bank deposits (certificates of deposit, checking, and saving accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**CITY OF INKSTER, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006  
(Continued)**

**3) DEPOSITS AND INVESTMENTS (Continued)**

**Interest Rate Risk**

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At the end, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
U.S. government or agency (pension)	\$7,555,697	4.78 years
Corporate bonds (pension)	1,783,307	2.43 years

**Credit Risk**

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Investment pools	\$8,445,760	None	
Corporate bonds	150,396	AAA	S&P
	407,654	AA	S&P
	388,314	AA-	S&P
	101,488	A+	S&P
	353,476	A	S&P
	235,692	A-	S&P
	100,062	BBB+	S&P
	46,227	B	S&P
U.S. agencies not explicitly guaranteed by the U.S. government	7,555,722	AAA	S&P

**Component Units**

The cash and cash equivalents of the city component units consist of interests in the City's shared bank accounts totaling \$1,831,013 at June 30, 2006. The portion of these balances covered by federal depository insurance is not known since the accounts are shared with the City.

**CITY OF INKSTER, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006  
(Continued)**

**4) RECEIVABLES AND RELATED DEFERRED REVENUE**

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Receivable from component unit-TIFA	\$1,158,756	\$0
Grants received prior to meeting all eligibility requirements	<u>20,000</u>	<u>34,406</u>
<b>Total</b>	<u><u>\$1,178,756</u></u>	<u><u>\$34,406</u></u>

\*The City issued bonds on behalf of the TIFA, which are discussed in detail in Note 7. The TIFA has committed to repay 75 percent of the bonds' debt service, including past payments made by the City, which were in excess of the TIFA's ability to repay at that time. The City's Major Streets Fund has recorded this receivable at an amount equal to the 75 percent of the bonds principal payments plus \$38,297 for the past payments made by the City. The interest portion of the bond payments will be recorded when received. The TIFA's current and future commitment to the repayment of these bonds is limited to its ability to capture sufficient revenue.

**CITY OF INKSTER, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006  
(Continued)**

**5) CAPITAL ASSETS**

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2005	Additions 2005-06	Adjustments 2005-06	Disposals 2005-06	Balance June 30, 2006
<b><u>Governmental Activities:</u></b>					
Capital assets not being depreciated:					
Land	\$307,195	\$0	\$0	\$0	\$307,195
Capital assets being depreciated:					
Land improvements	284,737	0	0	0	284,737
Roads and sidewalks	13,135,710	2,091,573	0	0	15,227,283
Buildings and improvements	7,546,504	0	0	0	7,546,504
Vehicles	4,507,676	76,660	0	0	4,584,336
Furniture and equipment	4,158,872	49,883	0	0	4,208,755
<b>Subtotal</b>	<b>29,633,499</b>	<b>2,218,116</b>	<b>0</b>	<b>0</b>	<b>31,851,615</b>
Accumulated depreciation:					
Land improvements	28,474	14,237	0	0	42,711
Roads and sidewalk	3,107,384	517,380	0	0	3,624,764
Buildings and improvements	4,197,610	187,438	0	0	4,385,048
Vehicles	3,035,203	362,956	0	0	3,398,159
Furniture and equipment	2,342,605	347,269	0	0	2,689,874
<b>Subtotal</b>	<b>12,711,276</b>	<b>1,429,280</b>	<b>0</b>	<b>0</b>	<b>14,140,556</b>
<b>Net capital assets being depreciated</b>	<b>16,922,223</b>	<b>788,836</b>	<b>0</b>	<b>0</b>	<b>17,711,059</b>
<b>Net capital assets</b>	<b>\$17,229,418</b>	<b>\$788,836</b>	<b>\$0</b>	<b>\$0</b>	<b>\$18,018,254</b>

**CITY OF INKSTER, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**  
**(Continued)**

**5) CAPITAL ASSETS (Continued)**

	Balance July 1, 2005	Additions 2005-06	Deletions 2005-06	Balance June 30, 2006
<b>Business-Type Activities:</b>				
Capital assets not being depreciated:				
Land	\$2,745	\$0	\$0	\$2,745
Construction in progress	26,455	542,362	0	568,817
<b>Subtotal</b>	29,200	542,362	0	571,562
Capital assets being depreciated:				
Water and sewer dist. system	37,180,954	269,007	0	37,449,961
Buildings and building improvements	66,444	0	0	66,444
Office furnishings	4,348	0	0	4,348
Other tools and equipment	22,676	0	0	22,676
<b>Subtotal</b>	37,274,422	269,007	0	37,543,429
Accumulated depreciation:				
Water and sewer dist. system	8,284,135	863,198	0	9,147,333
Buildings and building improvements	66,444	0	0	66,444
Office furnishings	4,348	0	0	4,348
Other tools and equipment	22,676	0	0	22,676
<b>Subtotal</b>	8,377,603	863,198	0	9,240,801
<b>Net capital assets being depreciated</b>	28,896,819	(594,191)	0	28,302,628
<b>Net capital assets</b>	<u>\$28,926,019</u>	<u>(\$51,829)</u>	<u>\$0</u>	<u>\$28,874,190</u>

Depreciation expense was charged to programs of the primary government as follows:

<b>Governmental Activities</b>	
General government	155,981
Public safety	253,610
Public works	43,131
Culture and recreation	106,790
Road infrastructure	517,380
Internal service funds depreciation charged to various functions based on their usage of the assets	352,388
<b>Total governmental activities</b>	<u>\$1,429,280</u>
<b>Business-type activities - Water and sewer</b>	<u>\$863,807</u>

**CITY OF INKSTER, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**  
**(Continued)**

5) **CAPITAL ASSETS (Continued)**

**Construction Commitments** – The City has active road construction projects at year-end related to the 2003 and 2006 local road bond issues. At year-end, the City's construction commitments approximated \$2,708,000.

The City of Inkster, Michigan in conjunction with the City of Inkster Brownfield Redevelopment Authority, has entered into an agreement with a development company and its affiliate to redevelop the Carver Homes area of the City. Under the agreement, the City will acquire, improve, and then sell the project real estate to the developer. The City issued bonds for \$2,000,000 during the fiscal year 2003/04 and transferred the proceeds to the Brownfield Redevelopment Authority to be used for preliminary engineering and administrative costs as well as property acquisition and demolition expenditures. The City has reprogrammed future grant funds to pay for the majority of the debt service costs of this issue. The City is also relying on current and future grant monies to fund the related relocation costs.

It is intended that in fiscal year 2006/07 that the Carver Homes area redevelopment project will be amended to split the project into three phases (PH1A, PH1B and PH2) subject to the developer meeting two conditions before construction. The first condition requires the developer to provide the City a notice to proceed with construction on one hundred and eight (108) homes in the development area. The second condition requires the developer to provide evidence to the City that the developer can guarantee payment of a future \$4,155,000 City debt issue for the infrastructure cost of this development. The City has received the notice to proceed and the guarantee.

Phase 1A requires that the developer build seventeen (17) homes on Annapolis Avenue in fiscal year 2006/07. The developer will pay for the infrastructure for the seventeen (17) homes. In exchange, the City will sell the land where the seventeen (17) homes will be located for one dollar (\$1.00). Phase 1B requires that the developer build ninety-one (91) more homes in the development area. This work is also anticipated to begin in the fiscal year 2006/07.

From the proceeds the City will reimburse the developer for infrastructure costs on the first seventeen (17) homes built and pay for the cost of the infrastructure for the remaining ninety-one (91) homes. Once the debt is sold for the entire project and the developer is reimbursed for infrastructure costs in Phase 1A, the developer will pay \$2,000 per lot to the City for all lots developed in the development area. The bond issue was closed on November 8, 2006.

It is intended that debt service costs from the proposed \$4,155,000 debt issue will be paid from tax captures from the City Brownfield development area. The bond issuance was closed on November 8, 2006.

**Commitment** – During the year ended June 30, 1992, the City negotiated an agreement with the Michigan Department of Natural Resources to ensure compliance with the Clean Water Act. This agreement requires the construction of retention basins and/or the construction of separate sanitary and storm sewer lines to be completed to two phases. Phase one of the project was substantially complete at June 30, 2003 and phase two Western Out Falls design work was started in 2006. The construction for Western Out Falls and design and construction for Eastern Out Falls is expected to be completed by 2013. The estimated cost of phase two is \$54,000,000.



**CITY OF INKSTER, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006  
(Continued)**

**6) INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

Fund Due to	Fund Due from	Amount
General Fund	Nonmajor Governmental Funds	\$186,160
	Water and Sewer Fund	154,623
	Total General Fund	340,783
Escrow	General Fund	263,821
Nonmajor Governmental Funds	Nonmajor Governmental Funds	15,159

**TRANSFERS**

From	To	Amount
Internal Service Fund	General Fund	\$65,000
Major Streets Fund	Local Streets Fund	275,000
Capital Improvement Fund	Drug Forfeiture Fund	44,000
Capital Improvement Fund	Grants Fund	15,159

**CITY OF INKSTER, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**  
**(Continued)**

**7) LONG-TERM DEBT**

The following is a summary of the primary government debt of the City outstanding as of June 30, 2006:

	Interest Rate Ranges	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2006	Due Within One Year
<b>Governmental Activities</b>						
General obligation bonds						
(for road and other construction):						
Act 175 Motor Vehicle Bond, Series 1991						
Amount of Issue - \$60,000	6.30% -					
Maturing through 11/2006	6.60%	\$130,000	\$0	(\$65,000)	\$65,000	\$65,000
Act 175 Motor Vehicle Bond, 2001 Series						
Refunding bonds						
Amount of Issues - \$1,780,000	2.00% -					
Maturing through 8/2014	4.625%	1,690,000	0	(145,000)	1,545,000	145,000
General Obligation, Unlimited Tax 2003 Series						
Local road bonds						
Amount of Issues - \$5,000,000	2.5% -					
Maturing through 3/2013	3.625%	4,070,000	0	(480,000)	3,610,000	470,000
2003 Capital Improvement Bonds						
Amount of Issues - \$2,000,000	2.5% -					
Maturing through 11/2013	5.125%	1,800,000	0	(170,000)	1,630,000	175,000
Unlimited Tax General Obligation						
Local street bonds, series 2006						
Amount of Issue - \$5,000,000	4.0% -					
Maturing through 3/1/2016	4.250%	0	5,000,000	0	5,000,000	435,000
<b>Total bond obligations</b>		<b>7,690,000</b>	<b>5,000,000</b>	<b>(840,000)</b>	<b>11,850,000</b>	<b>1,290,000</b>
<b>Other long-term obligations</b>						
Vector Truck purchase						
Amount of Issue - \$259,580						
Maturing through 8/2005	4.98%	52,634	0	(52,634)	0	0
Sweeper purchase						
Amount of Issue - \$147,500						
Maturing through 6/30/2008	4.08%	115,561	0	(27,158)	88,402	28,282
Police Cars purchase						
Amount of Issue - \$127,487						
Maturing through 7/15/2005	3.20%	63,002	0	(63,002)	0	0
Bucket Truck purchase						
Amount of Issue - \$94,500						
Maturing through 7/15/2005	3.94%	74,503	0	(19,003)	55,500	17,782
Fire Truck & Ambulance purchase						
Amount of Issue - \$558,852						
Maturing through 7/2008	3.8%	468,852	0	(115,589)	353,263	113,290
<b>Total other long-term obligations</b>		<b>774,552</b>	<b>0</b>	<b>(277,386)</b>	<b>497,165</b>	<b>159,354</b>
<b>Total Governmental Activities</b>		<b>\$8,464,552</b>	<b>\$5,000,000</b>	<b>(\$1,117,386)</b>	<b>\$12,347,165</b>	<b>\$1,449,354</b>

**CITY OF INKSTER, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006  
(Continued)**

**7) LONG-TERM DEBT (Continued)**

	<u>Interest Rate Ranges</u>	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2006</u>	<u>Due Within One Year</u>
<b>Business-type Activities</b>						
Wayne County Contracts (for construction of system improvements):						
Wayne County Sewage Disposal System, 1994						
North Huron Valley System						
Amount of Issue - \$558,516	5.6% -					
Maturing through 5/2009 - Net of \$10,304 of deferred charges at June 30, 2006	6.00%	\$190,380	\$0	(\$43,190)	\$147,190	\$49,609
Wayne County Sewage Disposal System, 1999						
CSO Basin Series B Refunding Bonds						
Amount of Issue - \$2,730,000	3.75% -					
Maturing through 11/2015 - Net of \$98,902 of deferred charges at June 30, 2006	4.80%	2,408,736	0	(172,637)	2,236,099	190,000
Wayne County Sewage Disposal System, 1999						
CSO Basin Series C Refunding Bonds						
Amount of Issue - \$6,390,000	3.75% -					
Maturing through 11/2015 - Net of \$230,773 of deferred charges at June 30, 2006	4.80%	5,615,380	0	(426,154)	5,189,226	465,000
1994 State Revolving Fund Loan						
Amount of Issue - \$2,590,000						
Maturing through 4/2016	2.00%	1,550,000	0	(125,000)	1,425,000	130,000
Utility Systems Revenue Bonds (for system improvements) - 2003 Revenue Refunding Bonds						
Amount of Issue - \$435,000	2.00% -					
Maturing through 8/2006	2.30%	220,000	0	(110,000)	110,000	110,000
<b>Total business-type activities</b>		<u>\$9,984,496</u>	<u>\$0</u>	<u>(\$876,981)</u>	<u>\$9,107,515</u>	<u>\$944,609</u>

\*\* A portion of these bonds was defeased during the year ended June 30, 2003.

**CITY OF INKSTER, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**  
**(Continued)**

**7) LONG-TERM DEBT (Continued)**

	Interest Rate Ranges	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Due Within One Year
<b>Component Units</b>						
Beech Daly Tax Increment Finance Authority - Road Improvement						
2001 Series Bonds*						
Amount of Issue - \$1,655,000	2.00%					
Maturing through 11/2019	5.00%	\$1,595,000	\$0	(\$110,000)	\$1,485,000	\$110,000
Beech Daly Tax Increment Finance Authority - City Facilities Project						
Series 2006						
Amount of Issue - \$1,300,000	4.6% -					
Maturing through 11/1/2025	5.0%	0	1,300,000	0	1,300,000	30,000
<b>Due to the City of Inkster**</b>						
75% of City of Inkster 2001 Series Act 175 Motor Vehicle Highway Refunding Bonds						
Original amount of obligation - \$1,335,000 (75% of \$1,780,000)	2.00% -					
Maturing through 6/2014	4.625%	1,267,500	0	(108,750)	1,158,750	108,750
Reimbursement obligation - Historical portion - Payable when funds are available		38,297	0	0	38,297	0
<b>Total business-type activities</b>		<b>\$2,900,797</b>	<b>\$1,300,000</b>	<b>(\$218,750)</b>	<b>\$3,982,047</b>	<b>\$248,750</b>

Under certain circumstances, the issuance of future Enterprise fund bonds is restricted unless "net revenues" meets minimum bond requirements.

The city has pledged its full faith and credit for the bond obligation of the Beech Daly Tax Increment Finance Authority, a component unit.

The City anticipates that 75 percent of the debt service requirement for two of the Act 175 Motor Vehicle Highway bonds (with an outstanding balance of \$1,158,750 at June 30, 2006) will ultimately be provided by the Tax Increment Finance Authority (TIFA), a component unit. It is also anticipated that the TIFA will eventually repay the City \$38,297, representing the net unreimbursed installment payments made by the City through June 30, 2006 related to these obligations.

**CITY OF INKSTER, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006  
(Continued)**

**7) LONG-TERM DEBT (Continued)**

The TIFA's payment of the above described obligations is limited to the amount of TIFA revenue legally available and in excess of the amounts which are required to pay the debt service of the outstanding TIFA bonds, if any. Historically, annual TIFA revenue has, in varying amounts, exceeded the total annual debt service payments for the outstanding TIFA bonds.

Annual debt service requirements to maturity for the above governmental, business type, and component unit bonds and note obligations are as follows:

	Governmental Activities			Business-Type Activities			Component Units		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2007	\$1,449,354	\$413,507	\$1,862,861	\$944,609	\$373,187	\$1,317,796	\$248,750	\$166,568	\$415,318
2008	1,435,640	416,046	1,851,686	831,085	338,987	1,170,072	263,750	162,109	425,859
2009	1,477,171	364,869	1,842,040	862,513	304,084	1,166,597	263,750	151,540	415,290
2010	1,340,000	310,132	1,650,132	848,794	287,021	1,115,815	268,750	140,223	408,973
2011	1,185,000	219,302	1,404,302	833,791	231,741	1,065,532	268,750	166,685	435,435
2012-2016	5,460,000	462,277	5,922,277	4,786,723	563,406	5,350,129	1,270,000	493,156	1,763,156
2017-2021	0	0	0	0	0	0	948,297	193,659	1,141,956
2022-2026	0	0	0	0	0	0	450,000	38,800	488,800
	<u>\$12,347,165</u>	<u>\$2,186,133</u>	<u>\$14,533,298</u>	<u>\$9,107,515</u>	<u>\$2,078,426</u>	<u>\$11,185,941</u>	<u>\$3,982,047</u>	<u>\$1,512,740</u>	<u>\$5,494,787</u>

**Defeased Debt** – In prior years, the City defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2006, \$8,760,000 of bonds outstanding are considered defeased.

In prior years, the TIFA defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2006, \$1,370,000 of bonds outstanding are considered defeased.

**CITY OF INKSTER, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**  
**(Continued)**

**8) RESTRICTED ASSETS**

**Governmental Activities** – The \$4,914,818 of restricted assets at June 30, 2006 are unspent cash proceeds from the 2006 General Obligation Bonds restricted for local road construction.

**Business – type Activities** – Restricted assets at June 30, 2006 consist of assets held at Wayne County restricted for the following purposes:

City's portion of Rouge River National Wet Weather Demonstration Basin construction	\$964,402
City's portion of North Huron Valley/Rouge Valley sewer System Combined Sewer Overflow Basin:	
Construction	20,231
Equipment replacement	354,891
Total restricted assets	<u>\$1,339,524</u>

The above assets result from the issuance of debt; therefore, net assets have not been restricted. Net assets of \$118,118 have been restricted, however, pursuant to an Environmental Protection Agency (EPA) requirement for certain required construction not related to the matters listed above. No specific assets have been restricted to this EPA- mandated reserve.

**9) RISK MANAGEMENT**

The City is exposed to various risks of loss related to property loss, torts, errors and omission, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for all claims except workers' compensation. In addition, the City retains risk for general liability claims, as a result of significant deductible levels. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The City is uninsured for workers' compensation claims outside of certain limits. The City has purchased insurance for specific occurrences in excess of \$300,000 and occurring within the insurance policy periods.

**CITY OF INKSTER, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**  
**(Continued)**

**9) RISK MANAGEMENT (Continued)**

The City estimates the liability for workers' compensation claims and general liability deductibles that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. Changes in the estimated liability for the years ended June 30 are as follows:

	<u>2006</u>	<u>2005</u>
Estimated Liability - Beginning of year	\$3,290,981	\$3,779,058
Estimated claims incurred, including changes in estimates - Net	940,283	1,592,132
Claim payments	<u>(1,445,283)</u>	<u>(2,080,209)</u>
Estimated liability - End of year	<u>\$2,785,981</u>	<u>\$3,290,981</u>

**10) CONTINGENCIES**

The City is a defendant in several lawsuits and asserted claims, including one class action lawsuit. While an estimate of the liability, net of available insurance coverage, related to these matters has been recorded, management and legal counsel believe the City's ultimate exposure with respect to these actions is not currently determinable. Hence, it is reasonably possible that the ultimate costs, if any, related to the resolution of these matters could differ materially from the amounts provided.

**11) JOINT VENTURES**

The City is a member of the Nankin Transit Commission, which provides transportation services to residents of Garden City, Westland, Canton, Wayne, and Inkster. The participating communities provide annual funding for its operations. During the current year, the City contributed \$34,000 for its operations. The City has no material equity interest in the Nankin Transit Commission at June 30, 2006. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Nankin Transit Commission can be obtained from the administrative offices at 37137 Marquette, Westland, Michigan 48185.

**CITY OF INKSTER, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**  
**(Continued)**

**11) JOINT VENTURES (Continued)**

The City is also a member of the Central Wayne County Sanitation Authority (the "Authority"). The City appoints one member to the joint venture's governing board, which approves the annual budget. The debt of the joint venture is being financed by operations and member millage. The City contributed approximately \$562,000 for sanitation costs passed through the Authority. The Authority has ceased operations and the partnership under contract to operate the facility is in the process of declaring bankruptcy. The City has recorded a long-term liability related to the negative net asset position of the Authority of \$157,807 in the government-wide statement of net assets.

Complete financial statements for the Authority can be obtained from the administrative offices at 4901 South Inkster Road, Dearborn Heights, Michigan 48125.

**12) DEFINED BENEFIT PENSION PLAN**

**Plan Descriptions**

The City contributes to the Police and Fire Retirement System and to the General Employee Retirement System, which are administrators of single-employer public employees' retirement systems that generally cover all full-time police and fire employees and general employees of the City, respectively. The systems provide retirement, disability, and death benefits to plan members and their beneficiaries.

**Police and Fire Retirement System**

At July 1, 2006, the date of the most recent actuarial valuation, membership consisted of 54 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 77 current active employees. The plan does not issue a separate financial report.

**Contributions-** Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note I for further significant accounting policies.

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 6 percent of wages. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.



**CITY OF INKSTER, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006  
(Continued)**

**12) DEFINED BENEFIT PENSION PLAN (Continued)**

**Annual Pension Cost** – For the year ended June 30, 2006, the City's annual pension cost of \$121,130 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at July 1, 2006 using the individual entry age actuarial cost method. Significant actuarial assumptions used include (a) a 8.00 percent investment rate of return, (b) projected salary increases of 4 percent per year, and (c) no cost of living adjustments. Both (a) and (b) include an inflation component of 4 percent. The actuarial value of assets was determined based on a five-year smoothed market. The unfunded actuarial liability is being amortized as a level percentage of payroll on an open basis. The remaining amortization period is 30 years.

The three-year trend information for the plan is as follows:

	Fiscal Year Ended December 31		
	2006	2005	2004
Police and Fire Retirement System			
Annual pension cost (APC)	\$121,130	\$485,107	\$451,695
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$0	\$0	\$0

**General Employee's Retirement System**

At July 1, 2006, the date of the most recent actuarial valuation, membership consisted of 46 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 65 current active employees. The plan does not issue a separate financial report

**Contributions** – Plan members' contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 5 percent of wages. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

**CITY OF INKSTER, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2006  
(Continued)**

**12) DEFINED BENEFIT PENSION PLAN (Continued)**

**Annual Pension Cost** – For the year ended June 30, 2006, the City's actuarially determined contribution for the plan was \$329,381. The City actually contributed and expensed \$519,561 for its current year contribution. The difference between the required and actual contribution has been recorded as a prepaid asset in the government-wide statement of net assets. The annual required contribution was determined as part of an actuarial valuation at July 1, 2006 using the aggregate actuarial cost method. Signification actuarial assumptions used include (a) a 7.0 percent investment rate of return, (b) projected salary increases of 4 percent per year, and (c) no cost of living adjustments. Both (a) and (b) include an inflation component of 3 percent. The actuarial value of assets was based on stated contract value for funds invested in the general accounts of an insurance company and market value for funds invested in insurance company separate accounts.

The three-year trend information for the plan is as follows:

	Fiscal Year Ended December 31		
	2006	2005	2004
General Employees' Retirement System:			
Annual pension cost (APC)	\$329,381	\$454,487	\$320,779
Percentage of APC contributed	158%	87%	96%
Net pension obligation	\$0	\$58,247	\$11,594

**13) POST-EMPLOYMENT BENEFITS**

The City provides health care benefits to all full time employees upon retirement, in accordance with labor contracts. There were fifty-seven retirees at June 30, 2006. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with a 50 percent contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for post-employment health care benefits are recognized as the insurance premiums become due and totaled approximately \$491,000 during the year.

The Governmental Accounting Standards Board has recently released Statement Number 45, Accounting and Reporting by Employers for Post-employment Benefits Other Than Pensions. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" post-employment benefits (other than pensions). The new rules will cause the government - wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

## **REQUIRED SUPPLEMENTAL INFORMATION**

**CITY OF INKSTER, MICHIGAN**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND**  
**YEAR ENDED JUNE 30, 2006**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property Taxes	\$7,519,500	\$7,384,000	\$7,284,793	(\$99,207)
Licenses and Permits	272,300	281,600	419,507	137,907
Federal Grants	0	0	0	0
State-Shared Revenues and Grants	4,702,000	4,702,000	4,735,800	33,800
Charges for Services	1,829,400	1,853,630	1,946,279	92,649
Interest	80,000	80,000	175,843	95,843
Administrative Charges and Other Revenue	1,965,500	2,817,978	2,771,713	(46,265)
<b>Total Revenue</b>	<b>16,368,700</b>	<b>17,119,208</b>	<b>17,333,935</b>	<b>214,727</b>
<b>Expenditures</b>				
General Government	2,598,490	2,650,207	2,572,988	77,219
Public Safety	6,564,820	6,427,378	6,612,688	(185,310)
Highways, Streets, and Public Works	3,031,225	2,884,957	2,805,592	79,365
Grant Expenditures	0	0	0	0
Cultural and Recreation	763,426	654,401	668,385	(13,984)
Nondepartmental	3,411,800	3,904,125	4,228,582	(324,457)
<b>Total Expenditures</b>	<b>16,369,761</b>	<b>16,521,068</b>	<b>16,888,235</b>	<b>(367,167)</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>(1,061)</b>	<b>598,140</b>	<b>445,700</b>	<b>(152,440)</b>
<b>Other Financing Sources (Uses)</b>				
Operating Transfers In	0	0	65,000	65,000
<b>Total Other Financing Sources</b>	<b>0</b>	<b>0</b>	<b>65,000</b>	<b>65,000</b>
<b>Net Change in Fund Balance</b>	<b>(1,061)</b>	<b>598,140</b>	<b>510,700</b>	<b>(87,440)</b>
<b>Fund Balances - July 1, 2005</b>	<b>578,858</b>	<b>578,858</b>	<b>578,858</b>	<b>0</b>
<b>Fund Balances - June 30, 2006</b>	<b>\$577,797</b>	<b>\$1,176,998</b>	<b>\$1,089,558</b>	<b>(\$87,440)</b>

**CITY OF INKSTER, MICHIGAN  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE – MAJOR STREETS FUND  
YEAR ENDED JUNE 30, 2006**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
State-Shared Revenues and Grants	\$1,139,000	\$1,139,000	\$1,149,592	\$10,592
Charges for Services	197,284	197,284	197,489	205
Interest	20,000	20,000	62,102	42,102
<b>Total Revenue</b>	<b>1,356,284</b>	<b>1,356,284</b>	<b>1,409,183</b>	<b>52,899</b>
<b>Expenditures</b>				
Highways, Streets, and Public Works	2,008,470	2,126,238	1,507,466	618,772
Debt Service	284,246	284,246	283,384	862
Transfer to Other Fund	275,000	275,000	275,000	0
<b>Total Expenditures</b>	<b>2,567,716</b>	<b>2,685,484</b>	<b>2,065,850</b>	<b>619,634</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>(1,211,432)</b>	<b>(1,329,200)</b>	<b>(656,667)</b>	<b>\$672,533</b>
<b>Fund Balances - July 1, 2005</b>	<b>2,481,309</b>	<b>2,481,309</b>	<b>2,481,309</b>	
<b>Fund Balances - June 30, 2006</b>	<b>\$1,269,877</b>	<b>\$1,152,109</b>	<b>\$1,824,642</b>	

**CITY OF INKSTER, MICHIGAN**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE – LOCAL STREETS FUND**  
**YEAR ENDED JUNE 30, 2006**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
State-shared Revenues and Grants	\$513,000	\$513,000	\$712,975	\$199,975
Charges for Services	725,000	725,000	489,317	(235,683)
Interest	30,000	30,000	18,471	(11,529)
Transfer from Other Funds	275,000	275,000	275,000	0
Bond Proceeds	5,000,000	5,000,000	5,000,000	0
<b>Total Revenue</b>	<b>6,543,000</b>	<b>6,543,000</b>	<b>6,495,763</b>	<b>(47,237)</b>
<b>Expenditures</b>				
Highways, Streets, and Public Works	5,355,006	5,377,545	2,282,945	3,094,600
Debt Service	700,183	700,183	585,366	114,817
<b>Total Expenditures</b>	<b>6,055,189</b>	<b>6,077,728</b>	<b>2,868,311</b>	<b>3,209,417</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>487,811</b>	<b>465,272</b>	<b>3,627,452</b>	<b>\$3,162,180</b>
<b>Fund Balances - July 1, 2005</b>	<b>1,375,834</b>	<b>1,375,834</b>	<b>1,375,834</b>	
<b>Fund Balances - June 30, 2006</b>	<b>\$1,863,645</b>	<b>\$1,841,106</b>	<b>\$5,003,286</b>	

**CITY OF INKSTER, MICHIGAN  
REQUIRED SUPPLEMENTAL INFORMATION  
PENSION SYSTEM SCHEDULES OF FUNDING PROGRESS  
JUNE 30, 2006**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Over-Funded AAL (OAAL) (a-b)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	OAAL as a Percentage of Covered Payroll
<b><u>General Employees' Retirement System</u></b>						
7/1/99*						
7/1/00	\$7,393,000	\$7,393,000	\$0	100.0	\$1,838,000	0.0
7/1/01*						
7/1/02	7,062,000	7,062,000	0	100.0	1,949,000	0.0
7/1/03*						
7/1/04	7,177,000	7,177,000	0	100.0	1,884,000	0.0
7/1/05*						
7/1/06	7,991,000	*** 7,991,000	0	100.0	2,134,232	0.0
<b><u>Police and Fire Retirement System</u></b>						
7/1/99	24,559,000	20,047,000	4,512,000	122.5	3,456,000	130.6
7/1/00	26,426,000	22,448,000	3,978,000	117.7	3,805,000	104.5
7/1/01	27,862,000	24,224,000	3,638,000	115.0	4,447,000	81.8
7/1/02	28,489,000	24,758,000	3,731,000	115.0	4,235,000	88.1
7/1/03	28,125,000	25,884,000	2,241,000	108.7	3,842,000	58.3
7/1/04	27,624,000	26,981,000	643,000	100.2	4,687,000	13.7
7/1/05	27,465,000	25,168,000	2,297,000	109.1	4,639,000	49.5
7/1/06	27,460,000	26,195,000	1,265,000	104.8	4,539,000	27.8

\* A valuation was not done for the years indicated.

\*\*\* At July 1, 2006, the valuation disclosed the present value of vested benefits as approximating \$9,063,000.  
In prior valuations, the present value of vested benefits approximated the actual value of assets at the corresponding date.

**CITY OF INKSTER, MICHIGAN  
REQUIRED SUPPLEMENTAL INFORMATION  
PENSION SYSTEMS SCHEDULES OF EMPLOYER CONTRIBUTIONS  
JUNE 30, 2006**

The schedule of funding progress is as follows:

**General Employees' Retirement System**

Fiscal Year Ended June 30	Actuarial Valuation Date	Annual Required Contribution*	Percentage Contributed
1999	7/1/98	\$144,726	100.0
2000	7/1/98	106,710	100.0
2001	7/1/00	201,310	100.0
2002	7/1/00	213,736	100.0
2003	7/1/02	327,206	69.0
2004	7/1/02	320,779	96.0
2005	7/1/04	454,487	87.2
2006	7/1/06	329,381	100.0

**Police and Fire Retirement System**

Fiscal Year Ended June 30	Actuarial Valuation Date	Annual Required Contribution*	Percentage Contributed
1999	7/1/97	\$175,642	100.0
2000	7/1/98	242,903	100.0
2001	7/1/99	290,626	100.0
2002	7/1/00	353,356	100.0
2003	7/1/01	464,781	100.0
2004	7/1/02	451,695	100.0
2005	7/1/04	485,107	100.0
2006	7/1/06	121,130	100.0

\* The City's policy is to calculate a percentage of payroll, at which it will make its employer plan contributions such that the resultant contribution amount is within the range of the alternatives presented in the actuarial valuations. The contribution amounts presented represent the actual contributions recorded by the City in the respective fiscal years.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of July 1, 2006, the latest actuarial valuation date, follows:

**General Employees' Retirement System**

Actuarial Cost Method	Aggregate
Amortization Method	N/A
Amortization Period (perpetual)	N/A
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return*	7.0%
Projected Salary Increases*	2%
* Includes Inflation at	2%
Cost of Living Adjustments	None

**Police and Fire Retirement System**

Actuarial Cost Method	Individual entry age
Amortization Method	Level percent of payroll, open
Amortization Period (perpetual)	30 years
Asset Valuation Method	Five-year smoothed market
Actuarial Assumptions:	
Investment Rate of Return**	8.00%
Projected Salary Increases**	4%
** Includes Inflation at	4%
Cost of Living Adjustments	None



**CITY OF INKSTER, MICHIGAN**  
**NOTES TO REQUIRED SUPPLEMENTAL INFORMATION**  
**JUNE 30, 2006**

**Budgetary Information** – The annual budget is prepared by the City management and adopted by the City Council; subsequent amendments are approved by the City Council. The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the City is the department level. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2005 has not been calculated. During the current year, the budget, the budget was amended in a legally permissible manner.

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund, Special Revenue Funds, and Debt Service Fund, with the following exceptions:

- Operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)."
- Financing proceeds related to debt issuance have been included in the "revenue" category rather than as "other financing sources."

**Excess of Expenditures Over Appropriations in Budgeted Funds** – During the year, the City incurred General Fund expenditures that were in excess of the amounts budgeted as follows:

	Amended Budget	Actual
Public Safety	\$6,427,378	\$6,612,688
Cultural and Recreation	654,401	668,385
Non-departmental	3,905,125	4,228,582

## **OTHER SUPPLEMENTAL INFORMATION**

**CITY OF INKSTER, MICHIGAN  
OTHER SUPPLEMENTAL INFORMATION  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2006**

	Non-Major Special Revenue Funds			Non-Major Capital Projects Funds		
			Non-Major Debt Service Fund			Total Non-Major Governmental Funds
	Grants	Drug Law Enforcement	Building Authority	Capital Improvements	Sidewalk Revolving	
<b>Assets</b>						
Cash And Investments	\$34,050	\$115	\$0	\$165,160	\$16,733	\$216,058
Accounts Receivables	106,005	36,524	0	0	0	142,529
Due From Other Funds	15,159	0	0	0	0	15,159
Due From Other Governmental Units	0	0	0	0	0	0
<b>Total Assets</b>	<b>\$155,214</b>	<b>\$36,639</b>	<b>\$0</b>	<b>\$165,160</b>	<b>\$16,733</b>	<b>\$373,746</b>
<b>Liabilities And Fund Balances</b>						
<b>Liabilities</b>						
Accounts Payable	\$5,033	\$8,151	\$0	\$431	\$550	\$14,165
Due To Other Funds	115,775	26,385	0	59,159	0	201,319
Deferred Revenue	34,406	0	0	0	0	34,406
<b>Total Liabilities</b>	<b>155,214</b>	<b>34,536</b>	<b>0</b>	<b>59,590</b>	<b>550</b>	<b>249,890</b>
<b>Fund Balances - Unreserved</b>	<b>0</b>	<b>2,103</b>	<b>0</b>	<b>105,570</b>	<b>16,183</b>	<b>123,856</b>
<b>Total Liabilities And Fund Balances</b>	<b>\$155,214</b>	<b>\$36,639</b>	<b>\$0</b>	<b>\$165,160</b>	<b>\$16,733</b>	<b>\$373,746</b>

**CITY OF INKSTER, MICHIGAN**  
**OTHER SUPPLEMENTAL INFORMATION**  
**COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2006**

	Non-Major Special Revenue Funds		Non-Major Debt Service Fund Building Authority	Non-Major Capital Projects Funds		Total Non-Major Governmental Funds
	Grants	Drug Law Enforcement		Capital Improvements	Sidewalk Revolving	
<b>Revenue</b>						
Property Taxes	\$0	\$0	\$0	\$1,472	\$0	\$1,472
Federal Grants	984,049	0	0	0	0	984,049
State Grants	22,499	0	0	0	0	22,499
Interest Income	0	83	0	5,697	643	6,423
Other	0	122,716	0	0	0	122,716
<b>Total Revenue</b>	<b>\$1,006,548</b>	<b>\$122,799</b>	<b>\$0</b>	<b>\$7,169</b>	<b>\$643</b>	<b>\$1,137,159</b>
<b>Expenditures</b>						
Public Safety	\$0	\$177,026	\$0	\$9,076	\$0	\$186,102
Grant Expenditures	1,006,547	0	0	0	0	1,006,547
Debt Service	0	0	0	0	0	0
Other	15,160	0	2,520	0	0	17,680
<b>Total Expenditures</b>	<b>1,021,707</b>	<b>177,026</b>	<b>2,520</b>	<b>9,076</b>	<b>0</b>	<b>1,210,329</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>(15,159)</b>	<b>(54,227)</b>	<b>(2,520)</b>	<b>(1,907)</b>	<b>643</b>	<b>(73,170)</b>
Operating Transfers In (Out)	15,159	44,000	0	(59,159)	0	0
<b>Fund Balances - July 1, 2005</b>	<b>0</b>	<b>12,330</b>	<b>2,520</b>	<b>166,636</b>	<b>15,540</b>	<b>197,026</b>
<b>Fund Balances - June 30, 2006</b>	<b>\$0</b>	<b>\$2,103</b>	<b>\$0</b>	<b>\$105,570</b>	<b>\$16,183</b>	<b>\$123,856</b>

**CITY OF INKSTER, MICHIGAN**  
**OTHER SUPPLEMENTAL INFORMATION**  
**COMBINING STATEMENT OF NET ASSETS FIDUCIARY FUNDS**  
**JUNE 30, 2006**

	Pension Trust Funds		Total
	General Employees' Retirement System	Police and Fire Retirement System	
<b>Assets</b>			
Cash	\$0	\$2,279	\$2,279
Investments:			
Corporate bonds	0	1,783,309	\$1,783,309
U.S. Government Securities	0	394,637	\$394,637
U.S. Government Agency Securities	0	7,161,086	\$7,161,086
Common and Preferred Stock	0	17,366,207	17,366,207
Pension Guarantee Contract Pooled Fund	7,574,223	0	7,574,223
Bank Investment Pools and Pooled Investment Fund	45,812	825,725	871,537
Receivables	84,397	0	84,397
<b>Net Assets - Held in Trust for Employee Pension Benefits</b>	<b>\$7,704,432</b>	<b>\$27,533,243</b>	<b>\$35,237,675</b>

**CITY OF INKSTER, MICHIGAN**  
**OTHER SUPPLEMENTAL INFORMATION**  
**COMBINING STATEMENT OF CHANGES IN NET ASSETS FIDUCIARY FUNDS**  
**JUNE 30, 2006**

	General Employees' Retirement System	Police and Fire Retirement System	Total
<b>Additions</b>			
Investment Income:			
Interest and Dividends	\$375,187	\$704,603	\$1,079,790
Net Increase (decrease) in Fair Value of Investments	(331,810)	1,875,444	1,543,634
Net Investment Income (Loss)	43,377	2,580,047	2,623,424
Contributions:			
Employer	519,361	121,130	640,491
Employee	115,414	274,938	390,352
Total Additions	678,152	2,976,115	3,654,267
<b>Deductions</b>			
Benefit Payments	509,929	1,606,942	2,116,871
Refunds of Contributions	29,465	24,715	54,180
Administrative Expenses	32,682	229,726	262,408
Total Deductions	572,076	1,861,383	2,433,459
<b>Net Increase (Decrease)</b>	106,076	1,114,732	1,220,808
<b>Net Assets - Held in Trust for Pension Benefits</b>			
Beginning of Year	7,598,356	26,418,511	34,016,867
End of Year	\$7,704,432	\$27,533,243	\$35,237,675

November 7, 2006

Honorable Mayor and  
Members of the City Council  
City of Inkster  
Inkster, MI 48141

In planning and performing our audit of the financial statements of The City of Inkster (the City) for the year ended June 30, 2006, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of some matters that are opportunities for strengthening internal controls and operating efficiency. Exhibit A, which accompanies this letter, summarizes our comments and suggestions regarding those matters. This letter does not affect our report on the financial statements of City.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

A handwritten signature in cursive script that reads "Alan C. Young & Assoc.".

Alan C. Young & Associates, P.C.  
Certified Public Accountants

**1. INVENTORY**

During our procedures for the Water & Sewer Fund, we noted that a physical inventory had not been performed in over two years. As a result, there is no direct correlation between the inventory recorded in the general ledger and the actual inventory on hand. This reduces the internal control over inventory and creates a greatly increased risk of theft or loss.

We recommend that the City perform a physical inventory for the Water & Sewer Fund on an annual basis. This will improve the informational value of internally generated financial data and also will strengthen the internal control structure.

**2. WATER AND SEWER FUND**

During our procedures, we noted that the Water and Sewer Fund generated an operating loss for the year ended June 30, 2006. We do want to point out that although there was an operating loss of \$483,000, after factoring in the non-operating revenues and expenses, the Fund generated a surplus for the year. This is a significant improvement from the large loss generated in 2005.

We recommend that the City continue to monitor this situation and consider long-term plans for the Fund's operation during the next consideration of rate modifications.

**3. ESCROW FUND**

During our procedures, we noted that the current method of accounting being utilized for the escrow fund is extremely cumbersome and unnecessarily complex. The escrow fund is used to account for assets held by the City as an agent for individuals, organizations, other governments, or other funds. This fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. However, the City's escrow fund includes revenue accounts, although they do function as liability accounts.

We recommend that the City re-examine their accounting procedures for the escrow fund. The fund should only include asset and liability accounts. These changes will make this fund less cumbersome and also improve the informational value of the fund.

**4. SUSPENSION AND DISBARMENT**

During our examination of grant compliance, we noted that for the year ended June 30, 2006, the City did not appear to have a procedure in place to verify that contractors utilized in the grants are not disbarred from participating in federally funded projects. This is a requirement for proper grant compliance. We did note that subsequent to year end, procedures are being taken by the City to obtain the necessary verification.



**5. CDBG GRANT FUNDS**

During our procedures, we noted that grant revenues and expenditures that relate to the City's CDBG Fund were being recorded in the Brownfield Fund. This resulted in necessary audit adjustments to properly classify the transactions.

We recommend that the City account for these grant transactions in the appropriate fund.